

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK, CGFM
Assistant Auditor/Controller-Recorder
Assistant County Clerk

September 24, 2008

Jim Lindley, Director
Public Health Department
351 North Mountain View Avenue
San Bernardino, CA 92415-0010

SUBJECT: AUDIT OF PUBLIC HEALTH CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Department of Public Health. Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash difference funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash difference funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

Our overall objective was to determine whether cash handling controls practiced by the Public Health effectively safeguard cash. Specific audit objectives were to determine whether Public Health:

1. Properly maintained and secured its cash funds.
2. Made deposits timely and intact.
3. Practiced adequate cashiering controls.

We reviewed internal controls over cash for the period of October 1, 2007 through December 31, 2007. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Public Health could be strengthened. We identified six findings. The findings and recommendations are located under the heading "Findings and Recommendations."

We sent a draft report to Public Health on 9/23/2008 and discussed our observations with the management on 9/24/2008. The department's responses to our recommendations are included in this report.

FINDINGS AND RECOMMENDATIONS

Finding # 1: Improvement needed over the safeguarding of the cash funds.

Per Internal Controls and Cash Manual (ICCM), Chapter 3, the safe combinations must be changed annually. In addition, during business hours, the safe must be closed when not in use, and cash must be inaccessible to unauthorized persons.

The following conditions were identified during our review:

- The combination of the safe at 172 W. Third Street San Bernardino, 6th floor Fiscal Administration office was not changed in ten years.
- The combination of the safe at 19777 Shelter Way, Devore Animal Control was known by all office assistants and has not been changed as far back as anyone can remember.
- The combination of the safe at 799 E. Rialto Ave, San Bernardino Tuberculosis Program was not changed since 2004-2005.

- The daily receipts and cash at 799 E. Rialto Reproductive Health Program were in a locked cash box in an overhead cabinet in the supervisor's office. The combination of the cash box was known by all five clerks and the key for the overhead cabinet was on the supervisor's desk accessible to all employees.
- Both safes at 351 Mtn. View Ave, San Bernardino Animal Control were not closed or locked during the business hours when personnel were not available in their offices.

The lack of effective control over the security of the safe, key, and combination, and lack of compliance with the County Internal Control and Cash Manual can lead to cash losses where accountability cannot be determined.

Recommendations

Immediately change the combination of the safe, and annually there after. Also, change combination of safe when staff change occurs. Keep the safe locked at all times when not in use and keep the key in a secure place, inaccessible to unauthorized employees.

Management's Response:

- The combination of the safe at 172 W. Third Street has been changed and will be changed every year in the future.
- Staff at 19777 Shelter Way have changed the safe combination and will select only authorized office personnel to have the combination. Only appropriate office personnel will be authorized to have access to cash drawers in order to conduct business.
- The safe at 799 E. Rialto is used by several programs, including Tuberculosis Control (TC). The safe has one combination and contains several keyed drawers, with one drawer assigned to a program.
- The safe combination at 799 E. Rialto has been changed.
Effective immediately, a written policy will be implemented providing direction to supervisors to maintain a list of staff members with access to the safe combination. Further instruction will be provided that requires changing the safe combination upon termination of any staff member; updating the access list when staffing changes; and changing the safe combination annually, even if staffing has not changed.
Staff members will be directed in writing, with receipt of acknowledgement, that per the Internal Controls and Cash Manual (ICCM), the safe shall remain locked at all times when not in use and the key kept in a secure place inaccessible to unauthorized employees.
- A memo directive to personnel will be distributed at 351 Mtn. View Ave, San Bernardino Animal Control directing personnel to ensure that all safes will be closed and locked at all times.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding # 2: Separation of duties over cash receipts and deposit could be improved.

Per Internal Controls and Cash Manual (ICCM), Chapters 2 and 4, and 6, no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. An employee of a higher-ranking job code should perform reconciliation at least monthly.

The following conditions were identified during our review:

- The Fiscal Assistant at 351 Mtn. View Ave, San Bernardino Animal Control, collects cash and issues cash receipts, reconciles and reviews daily receipts to source documents, and prepares the deposits of the location for BRINKS to deposit.
- No higher-ranking personnel reviews or reconciles the Fiscal Assistant's transactions or work at 351 Mtn. View Ave, San Bernardino Animal Control.

Without segregating duties, any one person could conceal errors and irregularities in the normal course of his/her duties, which could result in ineffective management of cash and an increased susceptibility to theft.

Recommendations

The Fiscal Assistant's duties must be segregated by reorganizing existing staff's assignments. Separate the following duties: cash receipting, deposit preparation, and reconciliation of cash to receipts. A higher-ranking personnel must review or reconcile the Fiscal Assistant's transactions and sign off on the reconciliation or review.

Management's Response:

Segregation of the Fiscal Assistant duties will occur with the assignment of reconciliation and receipt preparation to be reviewed daily by the Office Assistant IV or the Supervising Animal Control Officer II that are currently assigned by the program.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding # 3: Controls for safeguarding of the Change Fund were not adequate.

- The San Bernardino County Internal Controls and Cash Manual and good internal controls require management to encourage employees to memorize the combination and keep secured.
- Per the Internal Controls and Cash Manual (ICCM), Chapters 4 and 16, every department with a cash fund must designate an employee to be the fund custodian in charge of the fund.
- Each department head is to provide the ACR with a form that contains original signatures of the employees who are deputized/authorized designees to sign forms on behalf of the department head such as Signature/Fund Custodian Authorization form.

The following conditions were identified during our review:

- Locations safe combinations were not kept confidential. The Accounting Technician (Custodian of petty cash and cash difference funds) at 172 W. Third Street San Bernardino, 6th floor Fiscal Administration Office maintains a list of locations authorized safe combination holders and their combinations.
- The list of authorized safe combination holders was not updated.
- There was no Fund Custodian Authorization form or authorized fund custodian for the change fund.

The lack of compliance with the County manual requirements may result in future cash losses.

Recommendations

Ensure employees do not share the safe combination. Update the list of locations authorized safe combination holders and their combinations and keep the list with a higher ranking personnel's computer password protected. Also, immediately designate an employee to be the change fund custodian and provide the ACR with the Signature/Fund Custodian Authorization form.

Management's Response:

- The reason why the combinations are kept in one location is in case of an emergency and the office staff needs access to the contents. Unfortunately, there is no way to get this information unless it is available, hence the reason why it is maintained in the safe within the FAS office. With the exception of the Administrative Manager the other staff who have access to said safe do not have after hour access to any Public Health locations. This should allow the office safes to be unavailable to those without authorized access.

- The list is updated now, all requests for combination changes require prior approval from FAS and the list will be updated as needed.
- A cash fund custodian designation has been submitted for FY 2008/09 and will be updated each fiscal year.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding # 4: Management of the Cash Funds needs to be improved.

- Internal Controls and Cash Manual (ICCM), Chapter 5, requires the replenishment of the cash shortage fund when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower.
- Per the Internal Controls and Cash Manual (ICCM), Chapter 4, a critical step in properly maintaining a cash fund is periodic reconciliation. County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code completes the fund reconciliation. This independent review will help to ensure that transactions have been correctly recorded.

The following conditions were identified during our review:

- The Fiscal Administration office at 172 W. Third Street San Bernardino, 6th floor was not always replenishing the cash difference fund when the accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower.
- There was no evidence that the Petty Cash and Cash Difference funds have been reconciled and initialed monthly to the authorized amount by an independent higher ranking personnel at 172 W. Third Street San Bernardino, 6th floor Fiscal Administration office.

Lack of compliance with Internal Controls and Cash Manual may result in ineffective management of cash, and errors and irregularities could go undetected.

Recommendations

Replenish the cash shortage fund when accumulated shortages reach 75% of the authorized amount or \$100, whichever is lower. In addition, assign an employee other than the fund custodian and of a higher-ranking job code to complete the fund reconciliation, initial and date the document as evidence of performing the reconciliation.

Management's Response:

- The Accounting Technician responsible for completing this paperwork has been reminded of the limits and the need to request replenishment.
- The Supervising Accountant II within FAS will audit monthly and, by show of initials, will indicate that the petty cash fund is intact and ensure the appropriate paperwork is completed.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding # 5: Cash & Cash equivalent handling controls were inadequate.

- Per the Internal Controls and Cash Manual (ICCM), Chapter 6, at the start of each business day, the cashier must count and sign for the change funds in his/her possession. At the end of the day, once the supervisor starts the close out for the day's business, the cashier must count out the change fund, total and sign the count sheet.
- Per the Internal Controls and Cash Manual (ICCM), Chapter 3, use a restrictive endorsement stamp on all checks and money orders as soon as received.
- The Internal Controls and Cash Manual, Chapter 6, requires obtaining supervisor's approval of the void receipt at the time of occurrence, printing the word "VOID" in large letters on the receipt and initialing, and attaching all copies of voided receipts to the receipt book.

The following conditions were identified during our review:

- Lack of documentation of neither cash signed out each morning from the safe nor cash signed in at the end of day at 19777 Shelter Way, Devore Animal Control.
- At the start of each business day at 351 Mtn. View Ave. San Bernardino Animal Control, the cashiers were not signing for the cash in their possession.
- Checks at 799 E. Rialto Ave. San Bernardino Reproductive Health Program were not always endorsed as soon as received.
- The Tuberculosis Program at 799 E. Rialto Ave. San Bernardino and 351 Mtn. View Ave. San Bernardino Animal Control were not always obtaining the supervisor's approval of the void at the time of occurrence.

Lack of effective control over cash and cash equivalent could result in ineffective management of cash and susceptibility to theft.

Recommendations

Management should make sure that at the start of each business day, the cashier counts and signs for the change funds in his/her possession, and at the end of the day, counts out the change fund, totals and signs the count sheet. Management should make sure that checks are endorsed as soon as received and obtain the Supervisor's approval of the void at the time of occurrence.

Management's Response:

- In the morning and at the end of the day staff at 19777 Shelter Way, Devore Animal Control counts the funds in their drawer to confirm the funds in their assigned drawer. For both counts they sign a cash count form to document the amount of money with their signature.
- Currently Office Assistants count their assigned drawer to confirm the funds in their drawer at 351 Mtn. View Ave. San Bernardino Animal Control.
- Staff members at 799 E. Rialto Ave. San Bernardino Reproductive Health Program will be directed in writing, with receipt of acknowledgement that per the ICCM, all checks and money orders shall be stamped with the County's endorsement stamp as soon as received.
- Tuberculosis Control's cashing protocol at 799 E. Rialto Ave. San Bernardino requires staff to submit voided receipts along with the regular receipts at the end of the clinic for supervisor review and approval. The protocol will be amended to include obtaining a supervisor's approval of the void at the time of occurrence. Animal Control at 351 Mtn. View Ave. San Bernardino will advise staff to obtain supervisor's approval of void's at the time of occurrence.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding # 6: No documented departmental policies and procedures are available for staff.

Per the Internal Controls and Cash Manual (ICCM), Chapter 3, each department head or authorized designee has the responsibility to develop and implement the necessary guidelines and procedures required to ensure the control, safeguarding and handling of cash and cash equivalents.

Our review disclosed that there were no documented departmental policies and procedures at 799 E. Rialto Ave. San Bernardino Reproductive Health Program.

Without the necessary guidelines, staff are not aware of the appropriate controls to adhere to when performing their respective job functions

Recommendations

Management should develop and implement the necessary guidelines and procedures, and communicate the necessary policies and procedures to assist personnel in effectively performing their job duties.

Management's Response:

Effective immediately, all staff will be provided with a copy of the pertinent sections of ICCM dealing with Cash Controls. The complete ICCM will be sent to all clinic supervisors and made readily available for staff members at the various clinics. Additionally, staff members will be provided with a copy of the current Department of Public Health "Cashiering Procedures" manual. All staff will be required to execute an acknowledgement receipt.

Auditor's Response:

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard Ochi, CPA
Chief Deputy Auditor
Internal Audits Section

Quarterly copies to:

County Administrative Officer
Board of Supervisors (5)
Grand Jury (2)
Audit File (3)

Date Report Distributed: 12/11/08

HMO:DM:VD:AK:mah